4 July 2022

Submissions
Electricity Authority
P O Box 10-041
Wellington 6145

By email: wholesaleconsultation@ea.govt.nz

Dear team

Re: Consultation Paper – Financial Transmission Rights market review

Flick appreciates the opportunity to provide a submission on the Electricity Authority's (Authority) review of the Financial Transmission Rights (FTR) market.

Flick is a signatory to the joint submission by independent retailers and supports that submission.

We suggest the Authority's comments that there about no direct link to consumer benefit is not relevant in a competitive market. It is unlikely there is a direct and observable link, but within a competitive market if the benefits are being captured by participants who are profiteering, competition will balance that out to the benefit of consumers.

In addition, we note that organisation structure – ie vertical integration – is the locational price risk management tool for the incumbent gentailers. Flick queries the Authority's commitment to promoting competition if the mechanism available for independent retailers and generators to manage locational price risk is discontinued.

Our additional feedback follows:

If the FTR market is retained:

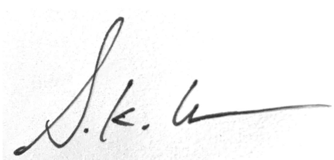
- it could be structured to limit participation to entities that are registered as bona fide market participants and subject to Code provisions;
- the term of the FTRs should be the length of time participants can buy ASX hedges – ie. 3 years – otherwise the FTR does not provide full protection from locational price risk.

If the Authority decides that the FTR market is to be dissolved the LCE rental amounts must be distributed to electricity purchasers. As we submitted on the SRAM consultation paper, the Code happens to require Transpower is the recipient of the LCE but Transpower's customers do not pay the LCE. LCE is created in the wholesale market price which is only paid by purchasers (not distributors or generators who are transmission customers). LCE is the overpayment by purchasers of electricity.

If the Authority decides to replace the FTR market with a different mechanism to manage locational price risk, the Authority must be able to demonstrate that the alternative will be superior to current arrangements. Locational price risk will continue to exist – and probably become more acute as wholesale prices are expected to be more volatile with an increasing proportion of electricity supplied by renewable generation. Leaving a void, where the FTR the market is closed down while a new mechanism is developed (likely to take at least two years), is in our view not consistent with the Authority's statutory objective to promote competition.

We welcome the opportunity to discuss our information in this submission with you in more detail.

Yours



Sunil Unka
Acting Chief Executive